

Message Text

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PAGE 01 KATHMA 01505 231132Z
ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
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FM AMEMBASSY KATHMANDU
TO SECSTATE WASHDC PRIORITY 1481
INFO AMEMBASSY NEW DELHI PRIORITY
AMEMBASSY COLOMBO
AMEMBASSY DACCA
AMEMBASSY ISLAMABAD

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E.O. 11652: N/A
TAGS: EFIN, NP, IN, US
SUBJECT: GON DECLARES NEW EXCHANGE RATES FOR DOLLAR AND INDIAN
RUPEE

1. GON MINISTRY OF FINANCE MARCH 22 ISSUED COMMUNIQUE SETTING
NEW VALUES EFFECTIVE IMMEDIATELY K4 NEPALESE RUPEES RELATIVE
TO US DOLLAR AND INDIAN RUPEE. SPECIFICALLY ONE US DOLLAR NOW
HAS EXCHANGE RATE OF NRS 12.00 (VICE 12.55) AND RATE FOR ONE
INDIAN RUPEE OW NRS 1.45 (VICE 1.39). (NOTE: RASTRA BANK
BUYING AND SELLING RATES --KATHMANDU 1494-- REFLECT SPREAD
AROUND FIXED RATE). COMMUNIQUE CITED AS REASON FOR THIS ACTION
"TO ELIMINATE EXISTING BROKEN CROSS RATES BETWEEN DIFFERENT
CURRENCIES" AND ALSO "TAKING INTO CONSIDERATION THE COUNTRY'S
FOREIGN EXCHANGE RESERVES, FOREIGN TRADE STRUCTURE, PRICE
SITUATION AND OVERALL BALANCE OF PAYMENTS SITUATION."
COMMUNIQUE WENT ON TO EXPLAIN THAT, WITH FALL OF US DOLLAR
(WHICH REFLECTED IN DAILY CHANGES IN INDIAN EXCHANGE RATE),
NEPALESE RATE FIXED AT 12.55 RESULTED IN 8.8 PERCENT
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DIFFERENCE WHEN DOLLAR CONVERTED INTO RESPECTIVE
RUPEE CURRENCIES. IT WAS NECESSARY TO ELIMINATE THIS
"BROKEN CROSS RATE", AND THIS WAS ACHIEVED THROUGH 4.3 PERCENT
REVALUATION AGAINST DOLLAR AND LIKE DEVARAATION AGAINST
INDIAN RUPEE. RE RATES FOR OTHER CURRENCIES, COMMUNIQUE
STATES THAT, AS BEFORE, THEY WOULD BE DETERMINED
DAILY WITH REFERENCE TO US DOLLAR RATE IN INTERNATIONAL

MONEY MARKET.

2. COMMENT: WE WILL SEEK TO EXPLORE REASONING BEHIND THIS ACTION AND TIMING THEREOF WITH BANKING SOURCES IN COMING DAYS. IN MEANTIME IT OUR PRELIMINARY ASSESSMENT THAT PRIME GON MOTIVE WAS TO SEEK STABILIZE RELATIONSHIP BETWEEN ITS CURRENCY AND TWO OUTSIDE CURRENCIES WHICH DOMINATE THIS ECONOMY. WHILE NEPAL WAS UNLIKELY TO BE DIRECT LOSER IN SPECULATION PROCESS, STABILITY ITSELF PROBABLY SEEN AS IMPORTANT GOAL. MOREOVER, GOI UNDOUBTEDLY WILL WELCOME MOVE TO NARROW SPREAD BETWEEN TWO CURRENCIES WHICH WAS WORKING TO INDIA'S DISADVANTAGE. AS FOR DECISION TO SPLIT DIFFERENCE BETWEEN DOLLAR AND INDIAN RUPEE INSTEAD OF ONLY REVALUING AGAINST DOLLAR, WE ASSUME AT LEAST ONE MOTIVE WAS TO IMPROVE NEPAL'S COMPETITIVE TRADE POSITION WITH INDIA, ITS DOMINANT TRADE PARTNER. AT SAME FZIME DESIRE NOT TO HURT TOURIST TRADE PROBABLY ARGUED IN FAVOR OF SOFTENING IMPACT ON DOLLAR.
HECK

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